



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0301	Title:	Tax credit for alternative energy capital investment
Primary Sponsor:	Cooney, Mike	Status:	As Introduced

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|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$21,224	\$33,874	\$34,721
Revenue:				
General Fund	\$0	(\$10,180,343)	(\$14,047,910)	(\$17,245,146)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$10,201,567)</u>	<u>(\$14,081,784)</u>	<u>(\$17,279,867)</u>

Description of fiscal impact: For three years, beginning in tax year 2010, this bill would generally increase the residential energy conservation credit and the alternative energy system credit. The bill makes changes to the amount of the credits, the limits on the credits, and makes the energy conservation credit available for investments in rental buildings owned by pass-through entities. The cost is expected to be \$10.2 million in FY 2011, \$14.0 million in FY 2012, and \$17.3 million in FY 2013. There would also be costs in FY 2014 through FY 2016 from the carryforward of credits allowed under this bill.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- This bill changes the residential energy conservation credit by
 - Increasing the credit from 25% of the taxpayer's investment to 50% of the investment
 - Increasing the maximum from \$500 to \$1,250 for individuals and \$2,500 for a pass-through entity
 - Allowing taxpayers to carry unused credits forward for up to three years
 - Allowing a pass-through entity that owns a residential rental building to claim the credit for its owners
 - Making windows and installation costs ineligible for the credit for individuals
 - Making lighting, refrigerators, dishwashers and clothes washers eligible for the credit

- Requiring the Department of Revenue and the Department of Environmental Quality to publish an annual list of investments in rental buildings that are to be eligible for the credit based on their energy savings
2. This bill changes the alternative energy system credit by
 - Increasing the limit on the credit for systems other than low-emission wood or biomass systems from \$500 to \$2,500
 - Reducing the credit for low-emission wood or biomass systems from 100% of the cost to 50% of the cost and making installation costs ineligible for the credit
 3. This bill would apply for 2010 through 2013. At the end of 2013, the credits would return to current law.

Energy Conservation Credit

4. For tax year 2007, there were 29,765 taxpayers who claimed \$8,087,215 in energy conservation credits (counting a married couple as two taxpayers whether they filed a joint return or separate returns). Of these, 2,971 had a credit that was more than their tax liability. These taxpayers had \$1,017,926 in credits they were unable to use. Thus, the energy conservation credit reduced general fund revenue by \$7,069,289 (\$8,087,215 - \$1,017,926).
5. The changes in this bill would increase credits three ways: More taxpayers would take the credit, taxpayers would take larger credits, and taxpayers whose credits are greater than their tax liability would carry them forward to later tax years. This fiscal note assumes that the additional taxpayers who would take the credit under this bill would have the same patterns of investment expenditures and tax liability as taxpayers who claimed the credit for 2007.
6. The 2001 Legislature increased the energy conservation credit from 5% to 25% of the investment. Use of the credit increased significantly over the following years. This fiscal note assumes that this bill would cause a similar, but smaller increase in credit use. In particular, this fiscal note assumes that, for each of the three years after enactment, the ratio of the percentage increase in credit use to the percentage increase in the credit will be half as large as occurred in the three years following the 2001 change. This increase includes both additional homeowners who take the credit because it is larger and landlords who are not eligible under current law.
7. The following table shows the calculation of the percentage increase in credit use. The four rows show the year before the credit change (Year 0) and the three years after the change. The actual number of credit claims for 2001 is in the first row. The remaining rows show the 2001 number of credit claims increased by the percentage in the middle row of this group.

2001 Amendment: 5% to 25%				
Year after Change	Credits Claimed	% Change from 2001	% Change in Credit	2001 Ratio
0	2,419			
1	4,569	88.88%	400%	22.22%
2	8,025	231.75%	400%	57.94%
3	10,431	331.21%	400%	82.80%

SB 301: 25% to 50%		
50% x 2001 Ratio	% Change in Credit	% Change in Claims
11.11%	100%	11.11%
28.97%	100%	28.97%
41.40%	100%	41.40%

8. The increases in credit use include credits claimed by pass-through entities. In this fiscal note, pass-through entities are implicitly treated as having their credits split by two individual owners. Thus a \$2,500 credit claimed by a pass-through is treated as two \$1,250 credits claimed by its owners.
9. Under current law, a taxpayer who invests \$2,000 or less receives a credit of 25% of the amount invested, and a taxpayer who invests more than \$2,000 receives a \$500 credit. Under this bill, a taxpayer who invests \$2,500 or less would receive a credit of 50% of the amount invested, and a taxpayer who invests more than \$2,500 would receive a \$1,250 credit. Thus, this bill would double the credit for a taxpayer who invests \$2,000 or less. For a taxpayer who invests between \$2,000 and \$2,500, it would increase the

credit from \$500 to 50% of the investment. For a taxpayer who invests more than \$2,500, it would increase the credit from \$500 to \$1,250.

10. For 2007, there were 21,207 taxpayers who claimed credits for investments under \$2,000. Their total credits were \$3,808,215. Under this bill, they would have claimed \$7,616,430.
11. For 2007, there were 8,558 taxpayers who claimed credits for investments of \$2,000 or more. For taxpayers with investments between \$1,800 and \$2,000, the number of taxpayers with investments of a given size decreases about 2% for every \$50 increase in the size investment. Assuming that this relationship holds for taxpayers making larger conservation investments, 1,676 taxpayers made investments between \$2,000 and \$2,500, and 6,882 made investments of \$2,500 or more. Taxpayers making investments between \$2,000 and \$2,500 made average investments of \$2,242.
12. For 2007, the 1,676 taxpayers making investments between \$2,000 and \$2,500 claimed \$838,000 ($\$500 \times 1,676$) in credits. Under this bill, they would have claimed \$1,878,796 ($50\% \times \$2,242 \times 1,676$).
13. For 2007, the 6,882 taxpayers making investments of \$2,500 or more claimed \$3,441,000 ($\$500 \times 6,882$) in credits. Under this bill, they would have claimed \$8,602,500 ($\$1,250 \times 6,882$).
14. Total energy conservation credits that would have been claimed by taxpayers who claimed credits in 2007 if this bill had been in effect in 2007 are \$18,097,726 ($\$7,616,430 + \$1,878,796 + \$8,602,500$).
15. The energy conservation credit is not forecast separately in the HJR2 income tax revenue estimate. It is part of “All Other Credits,” which are forecast to increase 10.2% from 2007 to 2010 and to increase 2.9% from 2010 to 2011. This fiscal note assumes that the energy conservation credit will grow at these rates and that it will have the same growth rate for 2012 as for 2011.
16. The following table shows credits that would be claimed under current law and under this bill. The two columns under the heading “Current Law” shows actual credit claims for 2007, forecast credit claims for 2010 through 2013, and cumulative growth since 2007 with the HJR2 growth rates. The first two columns under the heading “SB 301” show the growth in number of credits from Assumption 6 and the total cumulative growth that results from combining this with the growth assumed in HJR2. The right hand column shows credits that would have been claimed under this bill by taxpayers who claimed the credit for 2007 and this amount grown to 2010 through 2012.

Current Law			SB 301		
Tax Year	HJR2 Credits	Assumption 7 % Growth	Total % Growth		
2007	\$8,087,215				\$18,097,726
2010	\$8,908,447	10.15%	11.11%	21.26%	\$21,946,153
2011	\$8,932,470	10.45%	28.97%	39.42%	\$25,232,165
2012	\$8,957,196	10.76%	41.40%	52.16%	\$27,537,044

17. Credits will be claimed on income tax returns filed in the spring after each tax year. Some taxpayers who claim the credit will have tax liability less than their credit. This bill would allow them to carry unused credits forward for three years. Of taxpayers who claimed the credit for 2007, 15.6% had tax liability less than the credit they would have received if this bill had been in effect. This fiscal note assumes that the same percentage of taxpayers claiming the credit for 2010 through 2012 would carry over part of their credits, and that credits carried forward will be used evenly over the following three years.
18. The following table shows the calculation of fiscal year revenue reductions. The first column shows new credits claimed in FY 2011 through FY 2013. The fifth column shows current law credits for the same years. Neither column shows new credits claimed after FY 2013 because this bill sunsets and new credit claims would be the same in both cases. The second column shows the 15.6% of credits carried forward, and the third column shows credits carried forward from previous years.

SB 301					Current Law	Difference
FY	New Credit	Carryforward (15.6%)	Carryforward Used	Total Credits	Total Credits	
2011	\$21,946,153	- \$3,291,923		= \$18,654,230	- \$8,908,447	= \$9,745,783
2012	\$25,232,165	- \$3,784,825	+ \$1,097,308	= \$22,544,648	- \$8,932,470	= \$13,612,178
2013	\$27,537,044	- \$4,130,557	+ \$2,358,916	= \$25,765,403	- \$8,957,196	= \$16,808,208
2014			\$3,735,768	= \$3,735,768		\$3,735,768
2015			\$2,638,460	= \$2,638,460		\$2,638,460
2016			\$1,376,852	= \$1,376,852		\$1,376,852

Alternative Energy Systems Credit

19. For 2007, there were 1,803 taxpayers who claimed \$712,228 in alternative energy system credits. Of these, 750 claimed credits less than the limit of \$500 and 1,053 claimed the maximum credit of \$500.
20. The 750 taxpayers who claimed less than the maximum credit would have claimed the same credits if this bill had been in effect.
21. It is not known how many credits are for low emission wood or biomass systems. This fiscal note assumes that 75%, or 790, of the \$500 credits were for wood or biomass systems. This bill reduces the credit for low emission wood and biomass systems to half the cost but keeps the maximum credit at \$500. A check of advertised prices showed that most EPA certified wood stoves and pellet stoves cost more than \$1,000, so these taxpayers would have claimed \$500 credits if this bill had been in effect in 2007.
22. The 263 (1,053 – 790) taxpayers who claimed \$500 credits for non-wood systems would have claimed credits between \$500 and \$2,500 if this bill had been in effect. This fiscal note assumes that the average credit for these systems would be \$2,000. Thus, additional credits if this bill had been in effect in 2007 would have been \$394,500 $((\$2,000 - \$500) \times 263)$.
23. The alternative energy system credit also is part of “All Other Credits” and is assumed to grow at the same rate as this group of credits as a whole (see Assumption 15). The following table shows additional credits that would have been claimed for 2007 and that amount grown to 2010 through 2012:

Tax Year	Additional Credits	HJR 2 Growth
2007	\$394,500	
2010	\$434,560	10.15%
2011	\$435,732	10.45%
2012	\$436,938	10.76%

Alternative energy credits will be claimed on returns filed after the end of the tax year. The additional credits for 2010 through 2012 will translate in to revenue reductions in FY 2011 through FY 2013.

Administrative Costs

24. With the large increase in taxpayers claiming the credit, the Department of Revenue would need an additional 0.5 FTE auditing technician to process and verify audit claims. This position would be filled in January 2011 as the first tax returns with additional credits due to this bill are filed. Annual salary for this position would be \$15,248, and benefits would be \$10,104. Operating costs would be \$7,696 per year. One time costs to set up a new employee would be \$4,900 in FY 2011. An inflation factor of 2.5% is applied beginning FY 2012.
25. Changes to tax returns and instructions would be made as part of the annual update process. There would be no additional monetary cost unless the changes added a page to the income tax booklet. Changes to the department’s data processing system would be made by the software vendor as part of the annual update process and testing would be done by department employees. There would be no additional monetary cost, but resources would be taken away from other tasks.

Department of Environmental Quality

26. The Department of Environmental Quality (DEQ) would provide technical help to the Department of Revenue and to citizens who have questions about this tax credit. The DEQ would publish a list of expenditures eligible for the credit in subsection (2) of this bill that provide the greatest reduction in energy usage in residential buildings. DEQ would determine if an expenditure not identified in the list is as effective at reducing energy usage as those on the list. These activities would be done as a normal part of operations at DEQ and thus there would be no impact on DEQ.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$0	\$12,676	\$25,986	\$26,635
Operating Expenses	\$0	\$3,648	\$7,888	\$8,086
Equipment	\$0	\$4,900	\$0	\$0
TOTAL Expenditures	\$0	\$21,224	\$33,874	\$34,721
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$21,224	\$33,874	\$34,721
<u>Revenues:</u>				
General Fund (01)--Energy Conservation	\$0	(\$9,745,783)	(\$13,612,178)	(\$16,808,208)
General Fund (01)--Alternative Energy Systems	\$0	(\$434,560)	(\$435,732)	(\$436,938)
TOTAL Revenues	\$0	(\$10,180,343)	(\$14,047,910)	(\$17,245,146)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$10,201,567)	(\$14,081,784)	(\$17,279,867)

Technical Notes:

1. Subsection 1(7) requires the Department of Revenue, in consultation with the Department of Environmental Quality, to publish a list of investments in rental buildings owned by a pass-through that would be eligible for the credit by December 31, 2009. The department already publishes such a list for individuals annually through administrative rule. The intent of this section appears to be to have the department publish a second list only for rental buildings owned by a pass-through, to have that list apply with no changes for tax years 2010 through 2012, and then to have it expire when this bill sunsets. If the intent is to require changes in the department's current process for individuals, that should be clarified.
2. Subsection 1(2) allows a pass-through entity to take a credit against individual income tax and pass the credit through to its owners. If one of the owners is a C-corporation, that owner would not be able to take the credit because it has no individual income tax liability. It appears that this would require a pass-through entity to reduce its credit by the proportion of ownership held by C-corporations.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date